MF Global Holdings Ltd.
Form 8-K
June 08, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT

TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report: June 2, 2010

(Date of earliest event reported)

MF Global Holdings Ltd.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-33590	**98-0551260**
(Commission File Number)	**(IRS Employer Identification No.)**

717 Fifth Avenue

New York, NY	**10022**
(Address of Principal Executive Offices)	**(Zip Code)**

(212) 589-6200
(Registrant s Telephone Number, Including Area Code)

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On June 8, 2010, MF Global Holdings Ltd., a Delaware corporation (MF Global), closed its sale of 25,915,492 shares (the Shares) of its common stock, par value $1.00 per share (the Common Stock), pursuant to the Underwriting Agreement, dated June 2, 2010 (the Underwriting Agreement), among MF Global and J.P. Morgan Securities Inc., Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as representatives of the underwriters named in Schedule A thereto (the Underwriters). The Underwriting Agreement provides for the sale of 22,535,211 shares to the Underwriters at a price of $6.745 per share. In addition, MF Global granted the Underwriters a 30-day option to purchase up to an additional 3,380,281 shares (the Option) at a price of $6.745 per share. The price to the public is $7.10 per share. The Underwriters notified MF Global in writing on June 3, 2010 that they had exercised the Option in full. The Shares have been registered under the Securities Act of 1933 (the Act) pursuant to a Registration Statement on Form S-3 (No. 333-162119) previously filed with the Securities and Exchange Commission under the Act.

In connection therewith, MF Global is filing as exhibits to this report the Underwriting Agreement and the opinion of Sullivan & Cromwell LLP with respect to the validity of the Shares. The foregoing summary of the Underwriting Agreement does not purport to be complete and is qualified in its entirety by reference to the Underwriting Agreement, which is attached hereto as Exhibit 1.1 and is incorporated by reference into this Item 8.01.

Item 9.01 Exhibits

(a) None

(b) None

(c) None

(d) Exhibits:

Exhibit No.	**Exhibit Description**
<u>Exhibit No.</u>	<u>Description</u>
Exhibit 1.1	Underwriting Agreement, dated June 2, 2010, among MF Global and J.P. Morgan Securities Inc., Citigroup Global Markets Inc. and Deutsche Bank Securities Inc.
Exhibit 5.1	Opinion of Sullivan & Cromwell LLP

Exhibit 23.1	Consent of Sullivan & Cromwell LLP (included in Exhibit 5.1 hereto)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MF GLOBAL HOLDINGS LTD.

Date: June 8, 2010

By: /s/ Laurie R. Ferber
Name: Laurie R. Ferber

Title: General Counsel

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gaap:DefinedBenefitPlanNetPeriodicBenefitCost" contextRef="FD2016Q2YTD_us-gaap_RetirementPlanSponsorLocationAxis_country_US" unitRef="usd" decimals="-6" scale="6" format="ixt:numdotdecimal">8

Additional loss recognized due to settlements[(a)]
$
3

$
—

$
8

$
—

Pension data adjustment[(b)]
$

—

$
—

$
22

$
—

(a) Losses are a result of settlement transactions in each of our U.S. plans which exceeded the sum of annual service and interest costs for each plan. These losses were recorded in Other pension (income) expense.

(b) Reflects a non-cash, out-of-year charge related to the adjustment of certain historical deferred vested liability balances in the Plan during the first quarter of 2017. This charge was recorded in Other pension (income) expense. See Note 5.

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Note 11 - Short-term Borrowings and Long-term Debt

Short-term Borrowings	6/30/2017	12/31/2016
Current maturities of long-term debt	$ 376	$ 66
Other	9	8
	$ 385	$ 74
Less current portion of debt issuance costs and discounts	(10)	(8)
Short-term borrowings	$ 375	$ 66

Long-term Debt		
Securitization Notes	$ 2,282	$ 2,294
Subsidiary Senior Unsecured Notes	2,850	2,100
Term Loan A Facility	500	500
Term Loan B Facility	1,985	1,990
YUM Senior Unsecured Notes	2,200	2,200
Capital lease obligations	128	120
	$ 9,945	$ 9,204
Less debt issuance costs and discounts	(95)	(79)
Less current maturities of long-term debt	(376)	(66)
Long-term debt	$ 9,474	$ 9,059

On March 21, 2017, KFC Holding Co., Pizza Hut Holdings, LLC, a limited liability company, and Taco Bell of America, LLC, a limited liability company, each of which is a wholly-owned subsidiary of the Company, as co-borrowers (the "Borrowers") completed the repricing of the then existing $1,990 million under the Term Loan B Facility pursuant to an amendment to the Credit Agreement (as defined in our 2016 Form 10-K). The amendment reduces the interest rate applicable to the Term Loan B Facility by 75 basis points to LIBOR plus 2.00%, with an additional rate stepdown to LIBOR plus 1.75% in the event the secured net leverage ratio (as defined in the Credit Agreement) is less than 1 to 1. As a result of repricing the Term Loan B Facility, $192 million in principal was assigned to new lenders or existing lenders electing to increase their holdings in the loan. The maturity date and all other material provisions under the Credit Agreement remained unchanged as a result of this amendment.

On June 7, 2017, the Borrowers completed the repricing of the existing $500 million under the Term Loan A Facility and $1 billion under the Revolving Facility pursuant to an amendment to the Credit Agreement. The amendment reduces the interest rate applicable to the Term Loan A Facility and for borrowings under the Revolving Facility by 75 basis points. Subsequent to the repricing the interest rate ranges from 1.25% to 1.75% plus LIBOR or from 0.25% to 0.75% plus the Base Rate, at the Borrower's election, based upon the total net leverage ratio of the Borrowers and the Specified Guarantors (as defined in the Credit Agreement). As a result of repricing the Term Loan A Facility, $146 million in principal was assigned to new lenders or existing lenders electing to increase their holdings in the loan. There was no change in lender participation in the Revolving Facility. The maturity date for the Term Loan A Facility and the Revolving Facility has been extended to June 7, 2022. Amortization payments on the Term Loan A Facility will begin one full fiscal quarter after the first anniversary of the amendment effective date, which delays the original amortization schedule by approximately one year. All other material provisions under the Credit Agreement remain unchanged.

As a result of these repricing transactions, $23 million of fees were capitalized as debt issuance costs primarily within Long-term debt on our Condensed Consolidated Balance Sheet as of June 30, 2017. During the year to date ended

June 30, 2017, $8 million of fees and unamortized debt issuance costs were recognized within Interest expense, net due to these repricings.

On June 15, 2017, the Borrowers issued $750 million aggregate principal amount of 4.75% Senior Notes due June 1, 2027 (the "2027 Notes"). Interest on the 2027 Notes is payable semi-annually in arrears on June 1 and December 1, beginning on December 1, 2017. The 2027 Notes are guaranteed on a senior unsecured basis by (i) the Company, (ii) the Specified Guarantors and (iii) by each of the Borrower's and the Specified Guarantors' domestic subsidiaries that guarantee the Borrower's obligations under the Credit Agreement, except for any of the Company's foreign subsidiaries. The indenture governing the Notes contains covenants and events of default that are customary for debt securities of this type. During the quarter ended June 30, 2017 the Company paid debt issuance costs of $9 million in connection with the issuance of the 2027 Notes. These issuance costs are primarily recorded as a reduction in Long-term debt on our Condensed Consolidated Balance Sheet.

Details of our short-term borrowings and long-term debt as of December 31, 2016 can be found within our 2016 Form 10-K. Cash paid for interest during the years to date ended June 30, 2017 and 2016 was $207 million and $80 million, respectively.

Note 12 - Derivative Instruments

We use derivative instruments to manage certain of our market risks related to fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Swaps

We enter into interest rate swaps with the objective of reducing our exposure to interest rate risk for a portion of our variable-rate debt interest payments. At June 30, 2017 and December 31, 2016, our interest rate swaps outstanding had notional amounts of $1.55 billion. These interest rate swaps will expire in July 2021 and are designated cash flow hedges as the changes in the future cash flows of the swaps are expected to offset changes in expected future interest payments on the related variable-rate debt. There were no other interest rate swaps outstanding as of June 30, 2017.

The effective portion of gains or losses on the interest rate swaps is reported as a component of Accumulated OCI ("AOCI") and reclassified into Interest expense, net in our Condensed Consolidated Statements of Income in the same period or periods during which the related hedged interest payments affect earnings. Gains or losses on the swaps representing hedge ineffectiveness are recognized in current earnings. Through June 30, 2017, the swaps were highly effective cash flow hedges and no ineffectiveness has been recorded.

Foreign Currency Contracts

We enter into foreign currency forward and swap contracts with the objective of reducing our exposure to earnings volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying intercompany receivables or payables. Our foreign currency contracts are designated cash flow hedges as the future cash flows of the contracts are expected to offset changes in intercompany receivables and payables due to foreign currency exchange rate fluctuations.

The effective portion of gains or losses on the foreign currency contracts is reported as a component of AOCI. Amounts are reclassified from AOCI each quarter to offset foreign currency transaction gains or losses recorded within Other (income) expense when the related intercompany receivables and payables affect earnings due to their functional currency remeasurements. Gains or losses on the foreign currency contracts representing hedge ineffectiveness are recognized in current earnings. Through June 30, 2017, all foreign currency contracts were highly effective cash flow hedges and no ineffectiveness has been recorded.

As of June 30, 2017, and December 31, 2016, foreign currency forward and swap contracts outstanding had total notional amounts of $452 million and $437 million, respectively. As of June 30, 2017 we have foreign currency forward and swap contracts with durations expiring as early as 2017 and as late as 2020.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. At June 30, 2017, all of the counterparties to our interest rate swaps and foreign currency contracts had investment grade ratings according to the three major ratings agencies. All counterparties have performed in accordance with their contractual obligations as of June 30, 2017.

Gains and losses on derivative instruments designated as cash flow hedges recognized in OCI and reclassifications from AOCI into Net Income:

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	Quarter ended				Year to date			
	Gains/(Losses) Recognized in OCI		(Gains)/Losses Reclassified from AOCI into Net Income		Gains/(Losses) Recognized in OCI		(Gains)/Losses Reclassified from AOCI into Net Income	
	2017	2016	2017	2016	2017	2016	2017	2016
Interest rate swaps	$(7)	$ —	$ —	$ —	$(8)	$ —	$ 2	$ —
Foreign currency contracts	(30)	9	30	(15)	(32)	(6)	35	6
Income tax benefit/(expense)	3	(1)	—	—	3	—	(1)	—

As of June 30, 2017, the estimated net gain included in AOCI related to our cash flow hedges that will be reclassified into earnings in the next 12 months is $5 million, based on current LIBOR interest rates.

See Note 13 for the fair value of our derivative assets and liabilities.

Note 13 - Fair Value Disclosures

As of June 30, 2017, the carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, short -term borrowings and accounts payable approximated their fair values because of the short-term nature of these instruments. The fair value of notes receivable net of allowances and lease guarantees less subsequent amortization approximates their carrying value. The following table presents the carrying value and estimated fair value of the Company’s debt obligations:

	6/30/2017		12/31/2016	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
Securitization Notes[a]	$2,282	$2,389	$2,294	$2,315
Subsidiary Senior Unsecured Notes[b]	2,850	2,995	2,100	2,175
Term Loan A Facility[b]	500	498	500	501
Term Loan B Facility[b]	1,985	1,998	1,990	2,016
YUM Senior Unsecured Notes[b]	2,200	2,284	2,200	2,216

(a) We estimated the fair value of the Securitization Notes by obtaining broker quotes from two separate brokerage firms that are knowledgeable about the Company’s Securitization Notes and, at times, trade these notes. The markets in which the Securitization Notes trade are not considered active markets.

(b) We estimated the fair value of the YUM and Subsidiary Senior Unsecured Notes, Term Loan A Facility, and Term Loan B Facility using market quotes and calculations based on market rates.

<u>Recurring Fair Value Measurements</u>

The Company has interest rate swaps and foreign currency contracts accounted for as cash flow hedges and other investments, all of which are required to be measured at fair value on a recurring basis (See Note 12 for discussion regarding derivative instruments). The following table presents fair values for those assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall. No transfers among the levels within the fair value hierarchy occurred during the quarter and year to date ended June 30, 2017.

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		Fair Value		
	Level	6/30/2017	12/31/2016	Condensed Consolidated Balance Sheet
Interest Rate Swaps - Liability	2	$ —	$ 3	Accounts payable and other current liabilities
Interest Rate Swaps - Asset	2	3	—	Prepaid expenses and other current assets
Interest Rate Swaps - Asset	2	35	47	Other assets
Foreign Currency Contracts - Liability	2	18	—	Other liabilities and deferred credits
Foreign Currency Contracts - Asset	2	2	6	Prepaid expenses and other current assets
Foreign Currency Contracts - Asset	2	—	10	Other assets
Other Investments	1	26	24	Other assets

The fair value of the Company's foreign currency contracts and interest rate swaps were determined based on the present value of expected future cash flows considering the risks involved, including nonperformance risk, and using discount rates appropriate for the duration based upon observable inputs. The other investments include investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities that employees have chosen to invest in phantom shares of a stock index fund or bond index fund. The other investments' fair value is determined based on the closing market prices of the respective mutual funds as of June 30, 2017 and December 31, 2016.

Note 14 - Contingencies

Lease Guarantees

As a result of having assigned our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants and guaranteeing certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2065. As of June 30, 2017, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessees was approximately $550 million. The present value of these potential payments discounted at our pre-tax cost of debt at June 30, 2017, was approximately $470 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases as of June 30, 2017, was not material.

Franchise Loan Pool and Equipment Guarantees

We have agreed to provide financial support, if required, to a variable interest entity that operates a franchisee lending program used primarily to assist franchisees in the development of new restaurants or the upgrade of existing restaurants and, to a lesser extent, in connection with the Company's refranchising programs in the U.S. We have determined that we are not required to consolidate this entity as we share the power to direct this entity's lending activity with other parties. We have provided guarantees of 20% of the outstanding loans of the franchisee loan program. As such, at June 30, 2017, our guarantee exposure under this program is approximately $4 million based on total loans outstanding of $18 million.

In addition to the guarantees described above, we have provided guarantees of up to approximately $43 million on behalf of franchisees for several financing programs related to specific initiatives. At June 30, 2017, our guarantee exposure under these financing programs is approximately $8 million based on total loans outstanding under these financing programs of $11 million.

Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. An accrual is recorded with respect to claims or contingencies for which a loss is determined to be probable and reasonably estimable.

The Company and Taco Bell were named as defendants in a number of putative class action suits filed in 2007, 2008, 2009 and 2010 alleging violations of California labor laws including unpaid overtime, failure to timely pay wages on termination, failure to pay accrued vacation wages, failure to pay minimum wage, denial of meal and rest breaks, improper wage statements, unpaid

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business expenses, wrongful termination, discrimination, conversion and unfair or unlawful business practices in violation of California Business & Professions Code §17200. Some plaintiffs also sought penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act ("PAGA") as well as statutory "waiting time" penalties and alleged violations of California's Unfair Business Practices Act. Plaintiffs sought to represent a California state-wide class of hourly employees.

These matters were consolidated, and the consolidated case was styled In Re Taco Bell Wage and Hour Actions. The In Re Taco Bell Wage and Hour Actions plaintiffs filed a consolidated complaint in June 2009, and in March 2010 the court approved the parties' stipulation to dismiss the Company from the action, leaving Taco Bell as the sole defendant. Plaintiffs filed their motion for class certification on the vacation and final pay claims in December 2010, and on September 26, 2011, the court issued its order denying the certification of the vacation and final pay claims. Plaintiffs then sought to certify four separate meal and rest break classes. On January 2, 2013, the court rejected three of the proposed classes but granted certification with respect to the late meal break class. The parties thereafter agreed on a list of putative class members, and the class notice and opt out forms were mailed on January 21, 2014.

Per order of the court, plaintiffs filed a second amended complaint to clarify the class claims. Plaintiffs also filed a motion for partial summary judgment. Taco Bell filed motions to strike and to dismiss, as well as a motion to alter or amend the second amended complaint. On August 29, 2014, the court denied plaintiffs' motion for partial summary judgment. On that same date, the court granted Taco Bell's motion to dismiss all but one of the PAGA claims. On October 29, 2014, plaintiffs filed a motion to amend the operative complaint and a motion to amend the class certification order. On December 16, 2014, the court partially granted both motions, rejecting plaintiffs' proposed on-duty meal period class but certifying a limited rest break class and certifying an underpaid meal premium class, and allowing the plaintiffs to amend the complaint to reflect those certifications. On December 30, 2014, plaintiffs filed the third amended complaint. On February 26, 2015, the court denied a motion by Taco Bell to dismiss or strike the underpaid meal premium class.

Beginning on February 22, 2016, the late meal period class claim, the limited rest break class claim, the underpaid meal premium class claim, and the associated statutory "waiting time" penalty claim were tried to a jury. On March 9, 2016, the jury returned verdicts in favor of Taco Bell on the late meal period claim, the limited rest break claim, and the statutory "waiting time" penalty claim. The jury found for the plaintiffs on the underpaid meal premium class claim, awarding approximately $0.5 million. A bench trial was subsequently conducted with respect to the PAGA claims and plaintiffs' Business & Professions Code §17200 claim. On April 8, 2016, the court returned a verdict in favor of Taco Bell on the PAGA claims and the §17200 claim. In a separate ruling issued the same day, the court also ruled that plaintiffs were entitled to prejudgment interest on the underpaid meal premium class claim, awarding approximately $0.3 million. Taco Bell denied liability as to the underpaid meal premium class claim and filed a post-trial motion to overturn the verdict. Plaintiffs also filed various post-trial motions.

On July 15, 2016, the court denied Taco Bell's motion to overturn the verdict. The court denied Plaintiffs' motions: (1) for a new trial, (2) for judgment as a matter of law to overturn the verdicts in favor of Taco Bell, (3) challenging the jury instructions and special verdict forms, and (4) to overturn the court's rejection of the §17200 claims for meal and rest break violations. The court also denied Plaintiffs' motions for additional costs and for enhanced awards to two of the named Plaintiffs. The court granted Plaintiffs' motion for judgment on the §17200 claim regarding the underpaid meal premium claim, but rejected awarding any additional damages, finding that the jury verdict sufficiently compensated the class. The court granted Plaintiffs' motion for attorneys' fees, but awarded only approximately $1.1 million of the $7.3 million requested. The court also granted Plaintiffs' bill of costs, but only awarded approximately $0.1 million of Plaintiffs' $0.2 million. Thereafter, both Plaintiffs and Taco Bell timely filed notices of appeal.

Subsequently, the parties agreed to dismiss the appeals and settle the matter. The settlement agreement has been executed and approved by the court, all appeals have been dismissed and all payments required by the settlement have been made.

The proposed settlement amount was previously accrued in our Condensed Consolidated Financial Statements, and the associated cash payments were not material.

We are engaged in various other legal proceedings and have certain unresolved claims pending, the ultimate liability for which, if any, cannot be determined at this time. However, based upon consultation with legal counsel, we are of the opinion that such proceedings and claims are not expected to have a material adverse effect, individually or in the aggregate, on our Condensed Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Overview

Yum! Brands, Inc. ("YUM" or the "Company") operates or franchises a worldwide system of nearly 44,000 restaurants in 137 countries and territories, primarily through the concepts of KFC, Pizza Hut and Taco Bell. These three concepts are the global leaders in the chicken, pizza and Mexican-style food categories, respectively. Of the nearly 44,000 restaurants, 6% are operated by the Company and its subsidiaries and 94% are operated by franchisees.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements ("Financial Statements"), the Forward-Looking Statements and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 ("2016 Form 10-K"). References to YUM throughout this discussion are made in first person notations of "we," "us" or "our."

YUM currently consists of three reporting segments:

- The KFC Division which includes our worldwide operations of the KFC concept
- The Pizza Hut Division which includes our worldwide operations of the Pizza Hut concept
- The Taco Bell Division which includes our worldwide operations of the Taco Bell concept

On October 31, 2016 (the "Distribution Date"), we completed the spin-off of our China business (the "Separation") into an independent, publicly-traded company under the name of Yum China Holdings, Inc. ("Yum China"). Concurrent with the Separation, a subsidiary of the Company entered into a Master License Agreement with a subsidiary of Yum China for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its affiliates for the development and operation of KFC, Pizza Hut and Taco Bell restaurants in China. Prior to the Separation, our operations in mainland China were reported in our former China Division segment results. As a result of the Separation, the results of operations and cash flows of the separated business are presented as discontinued operations in our Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Cash Flows for periods prior to the Separation. See additional information related to the impact of the Separation in Note 4.

On October 11, 2016, we announced our strategic transformation plans to drive global expansion of our KFC, Pizza Hut and Taco Bell brands ("YUM's Strategic Transformation Initiatives") following the Separation. Major features of the Company's transformation and growth strategy involve being more focused, franchised and efficient. YUM's Strategic Transformation Initiatives below represent the continuation of YUM's transformation of its operating model and capital structure.

- More Focused. Four growth drivers will form the basis of YUM's strategic plans and repeatable business model to accelerate same-store sales growth and net-new restaurant development at KFC, Pizza Hut and Taco Bell around the world over the long term. The Company will focus on becoming best-in-class in:
  - Building Distinctive, Relevant Brands
  - Developing Unmatched Franchise Operating Capability
  - Driving Bold Restaurant Development
  - Growing Unrivaled Culture and Talent

- More Franchised. YUM intends to increase franchise restaurant ownership to at least 98% by the end of 2018.

- More Efficient. The Company intends to revamp its financial profile, improving the efficiency of its organization and cost structure globally, by:
  - Reducing annual capital expenditures to approximately $100 million in 2019;

- Reducing 2015 General and administrative ("G&A") expenses by a cumulative ~$300 million by 2019; and
- Maintaining an optimized capital structure of ~5.0x Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") leverage.

From 2017 through 2019, we intend to return $6.5 - $7.0 billion to shareholders through share repurchases and cash dividends. We intend to fund these shareholder returns through a combination of refranchising proceeds, free cash flow generation and maintenance of our five times EBITDA leverage. We anticipate generating proceeds in excess of $2 billion, net of tax, through our refranchising initiatives. Refer to the Liquidity and Capital Resources section of this MD&A for additional details.

Beginning in 2017, we have changed our fiscal year from a year ending on the last Saturday of December to a year beginning on January 1 and ending on December 31 of each year. Concurrently, we have removed the reporting lags from the fiscal calendars of our international subsidiaries. See Notes 1 and 5.

We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including performance metrics that management uses to assess the Company's performance. Throughout this MD&A, we commonly discuss the following performance metrics:

- The Company provides certain percentage changes excluding the impact of foreign currency translation (“FX” or “Forex”). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

- System sales growth includes the results of all restaurants regardless of ownership, including company-owned and franchise restaurants that operate our Concepts. Sales of franchise restaurants typically generate ongoing franchise and license fees for the Company at a rate of 3% to 6% of sales. Franchise restaurant sales are not included in Company sales on the Condensed Consolidated Statements of Income; however, the franchise and license fees are included in the Company’s revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the YUM system one year or more.

- Company restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Restaurant profit divided by Company sales. Within the Company Sales and Restaurant Profit sections of this MD&A, Store Portfolio Actions represent the net impact of new unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in costs such as inflation/deflation.

- Operating margin is Operating Profit divided by Total revenues.

- In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") , the Company has provided non-GAAP measurements which present Diluted Earnings Per Share from Continuing Operations excluding Special Items, our Effective Tax Rate excluding Special Items and Core Operating Profit. Core Operating Profit excludes Special Items and FX and we use Core Operating Profit for the purposes of evaluating performance internally. Special Items are not included in any of our Division segment results, and we believe the elimination of the FX impact from Core Operating Profit provides better year-to-year comparability without the distortion of foreign currency fluctuations. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of Diluted Earnings Per Share from Continuing Operations excluding Special Items, our Effective Tax Rate excluding Special Items and Core Operating Profit, provide additional information to investors to facilitate the comparison of past and present operations, excluding items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

All Note references herein refer to the Notes to the Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Unless otherwise stated, financial results herein reflect continuing operations of the Company. Percentages may not recompute due to rounding.

Results of Operations

Summary

All comparisons within this summary are versus the same period a year ago.

For the quarter ended June 30, 2017, GAAP diluted EPS from continuing operations decreased 10% to $0.58 per share, and diluted EPS from continuing operations, excluding Special Items, increased 21% to $0.68 per share.

For the year to date ended June 30, 2017, GAAP diluted EPS from continuing operations increased 14% to $1.34 per share, and diluted EPS from continuing operations, excluding Special Items, increased 19% to $1.33 per share.

Quarterly Financial highlights:

	% Change				
	System Sales, ex FX	Same-Store Sales	Net New Units	GAAP Operating Profit	Core Operating Profit
KFC Division	+7	+3	+4	+19	+21
Pizza Hut Division	+2	(1)	+2	+4	+7
Taco Bell Division	+7	+4	+3	+10	+10
Worldwide	+6	+2	+3	+1	+19

Year to date Financial highlights:

	% Change				
	System Sales, ex FX	Same-Store Sales	Net New Units	GAAP Operating Profit	Core Operating Profit
KFC Division	+6	+3	+4	+16	+18
Pizza Hut Division	+1	(2)	+2	(3)	Even
Taco Bell Division	+10	+6	+3	+14	+14
Worldwide	+5	+2	+3	+18	+14

Additionally:

- During the quarter, we opened 174 net new units and, year to date, we opened 315 net new units for 3% net new unit growth.
- During the quarter, we refranchised 244 restaurants, including 40 KFC, 163 Pizza Hut and 41 Taco Bell units, for proceeds of $136 million. We recorded refranchising gains of $19 million in Special Items. During the year to date, we refranchised 365 restaurants, including 71 KFC, 199 Pizza Hut and 95 Taco Bell units, for proceeds of $321 million. We recorded refranchising gains of $130 million in Special Items.
- During the quarter, we repurchased 5.6 million shares totaling $384 million at an average price of $68. During the year to date we repurchased 12.4 million shares totaling $826 million at an average share price of $66. As of quarter end, there was approximately $1.1 billion remaining in share repurchase authorization through year end 2017.
- Foreign currency translation negatively impacted GAAP operating profit by $6 million for the quarter and $11 million year to date.

Worldwide

GAAP Results

	Quarter ended			Year to date		
	2017	2016	% B/(W)	2017	2016	% B/(W)
Company sales	$909	$1,006	(10)	$1,811	$1,959	(8)
Franchise and license fees and income	539	503	7	1,054	993	6
Total revenues	$1,448	$1,509	(4)	$2,865	$2,952	(3)
Restaurant profit	$161	$167	(4)	$305	$315	(3)
Restaurant margin %	17.7 %	16.6 %	1.1 ppts.	16.8 %	16.1 %	0.7 ppts.
G&A expenses	$247	$254	3	$484	$497	3
Franchise and license expenses	54	54	(1)	100	105	4
Closures and impairment (income) expenses	1	7	84	2	9	78
Refranchising (gain) loss	(19)	(54)	(65)	(130)	(54)	NM
Other (income) expense	(2)	(6)	(58)	—	(13)	(93)
Operating Profit	$419	$415	1	$903	$764	18
Other pension (income) expense	$4	$—	NM	$32	$(1)	NM
Interest expense, net	104	51	NM	213	93	NM
Income tax provision	105	98	(7)	172	180	4
Income from continuing operations	$206	$266	(23)	$486	$492	(1)
Income from discontinued operations, net of tax	—	70	NM	—	208	NM
Net Income	$206	$336	(39)	$486	$700	(31)
Diluted EPS[(a)] from continuing operations	$0.58	$0.64	(10)	$1.34	$1.18	14
Diluted EPS[(a)] from discontinued operations	N/A	0.17	NM	N/A	0.50	NM
Diluted EPS[(a)]	$0.58	$0.81	(29)	$1.34	$1.68	(20)
Effective tax rate - continuing operations	33.8 %	27.0 %	(6.8) ppts.	26.2 %	26.8 %	0.6 ppts.

(a) See Note 2 for the number of shares used in this calculation.

Performance Metrics

Unit Count	6/30/2017	6/30/2016	% Increase (Decrease)
Franchise	41,480	39,672	5
Company-owned	2,512	3,097	(19
	43,992	42,769	3

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	% B(W) Quarter ended 2017	2016	% B(W) Year to date 2017	2016
System Sales Growth, reported	4 %	1 %	4 %	1 %
System Sales Growth, excluding FX	6 %	4 %	5 %	4 %
Same-store Sales Growth	2 %	1 %	2 %	1 %
Non-GAAP Items				
Core Operating Profit Growth	19%		14%	
Diluted EPS Growth from Continuing Operations, excluding Special Items	21%		19%	

Non-GAAP Items

Non-GAAP Items, along with the reconciliation to the most comparable GAAP financial measure, as presented below.

	Quarter ended 2017	2016	Year to date 2017	2016
Detail of Special Items				
Refranchising initiatives (See Note 5)	$19	$54	$130	$54
YUM's Strategic Transformation Initiatives (See Note 5)	(4)	(4)	(11)	(4)
Costs associated with Pizza Hut U.S. Transformation Agreement (See Note 5)	(12)	—	(12)	—
Costs associated with KFC U.S. Acceleration Agreement (See Note 5)	(5)	(8)	(8)	(17)
Non-cash charges associated with share-based compensation (See Note 5)	(16)	—	(18)	—
Other Special Items Income (Expense)	(2)	(2)	(2)	(2)
Special Items Income (Expense) - Operating Profit	(20)	40	79	31
Deferred vested pension liability adjustment - Other Pension Income (Expense) (See Note 5)	—	—	(22)	—
Special Items Income (Expense) from Continuing Operations before Income Taxes	(20)	40	57	31
Tax Benefit (Expense) on Special Items[b]	(17)	(7)	(51)	(5)
Special Items Income (Expense), net of tax from Continuing Operations	$(37)	$33	$6	$26
Average diluted shares outstanding	358	415	361	418
Special Items diluted EPS	$(0.10)	$0.08	$0.01	$0.06
Reconciliation of GAAP Operating Profit to Core Operating Profit				
GAAP Operating Profit	$419	$415	$903	$764
Special Items Income (Expense)	(20)	40	79	31
Foreign Currency Impact on GAAP Operating Profit[a]	(6)	N/A	(11)	N/A
Core Operating Profit	$445	$375	$835	$733
KFC Division				
GAAP Operating Profit	$243	$203	$450	$388
Foreign Currency Impact on GAAP Operating Profit[a]	(4)	N/A	(7)	N/A
Core Operating Profit	$247	$203	$457	$388
Pizza Hut Division				
GAAP Operating Profit	$85	$81	$168	$172
Foreign Currency Impact on GAAP Operating Profit[a]	(2)	N/A	(4)	N/A
Core Operating Profit	$87	$81	$172	$172

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Taco Bell Division				
GAAP Operating Profit	$152	$139	$293	$257
Foreign Currency Impact on GAAP Operating Profit[(a)]	—	N/A	—	N/A
Core Operating Profit	$152	$139	$293	$257
Reconciliation of Diluted EPS from Continuing Operations to Diluted EPS from Continuing Operations excluding Special Items				
Diluted EPS from Continuing Operations	$0.58	$0.64	$1.34	$1.18
Special Items Diluted EPS	(0.10)	0.08	0.01	0.06
Diluted EPS from Continuing Operations excluding Special Items	$0.68	$0.56	$1.33	$1.12
Reconciliation of GAAP Effective Tax Rate to Effective Tax Rate excluding Special Items				
GAAP Effective Tax Rate	33.8 %	27.0 %	26.2 %	26.8 %
Impact on Tax Rate as a result of Special Items[(b)]	7.5 %	(0.9)%	6.1 %	(0.5)%
Effective Tax Rate excluding Special Items	26.3 %	27.9 %	20.1 %	27.3 %

(a) The foreign currency impact on reported Operating Profit is presented in relation only to the immediately preceding year presented. When determining applicable Core Operating Profit growth percentages, the Core Operating Profit for the current year should be compared to the prior GAAP Operating Profit adjusted only for the prior year Special Items Income (Expense).

(b) The tax benefit (expense) was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items. We are utilizing an approach in which we recompute our estimated annual Effective Tax Rate and year to date income tax expense excluding Special Items, which allows us to determine the incremental tax impact of Special Items.

KFC Division

The KFC Division has 20,854 units, 80% of which are located outside the U.S. The KFC Division has experienced significant unit growth in emerging markets, which comprised approximately 55% of both the Division's units and profits, as of the end of 2016. Additionally, 93% of the KFC Division units were operated by franchisees as of the end of 2016.

	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2017	2016	Reported	Ex FX	2017	2016	Reported	Ex FX
System Sales Growth			5	7			4	6
Same-Store Sales Growth			3	N/A			3	N/A
Company sales	$492	$528	(7)	(6)	$967	$1,021	(5)	(5)
Franchise and license fees and income	278	251	11	13	535	494	8	10
Total revenues	$770	$779	(1)	—	$1,502	$1,515	(1)	—
Restaurant profit	$77	$77	—	1	$142	$143	(1)	—
Restaurant margin %	15.7 %	14.6 %	1.1 ppts.	1.0 ppts.	14.7 %	14.0 %	0.7 ppts.	0.7 ppts.
G&A expenses	$85	$93	9	8	$174	$187	7	6
Operating Profit	$243	$203	19	21	$450	$388	16	18

Unit Count	6/30/2017	6/30/2016	% Increase (Decrease)
Franchise	19,491	18,621	5
Company-owned	1,363	1,504	(9)
	20,854	20,125	4

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

	Quarter ended				
Income / (Expense)	2016	Store Portfolio Actions	Other	FX	2017
Company sales	$528	$ (47)	$15	$(4)	$492
Cost of sales	(181)	15	(4)	1	(169)
Cost of labor	(124)	10	(4)	2	(116)
Occupancy and other	(146)	16	(1)	1	(130)
Company restaurant expenses	$(451)	$ 41	$(9)	$4	$(415)
Restaurant profit	$77	$ (6)	$6	$—	$77

	Year to date				
Income / (Expense)	2016	Store Portfolio Actions	Other	FX	2017
Company sales	$1,021	$ (75)	$25	$(4)	$967
Cost of sales	(348)	25	(8)	(1)	(332)
Cost of labor	(242)	17	(9)	3	(231)
Occupancy and other	(288)	26	(1)	1	(262)
Company restaurant expenses	$(878)	$ 68	$(18)	$3	$(825)
Restaurant profit	$143	$ (7)	$7	$(1)	$142

The quarterly and year to date decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising, partially offset by international net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were quarterly and year to date company same-store sales growth of 3%, partially offset by higher labor and commodity costs.

Franchise and License Fees and Income

The quarterly and year to date increases in Franchise and license fees and income, excluding the impacts of foreign currency translation, were driven by international net new unit growth, franchise same-store sales growth of 4% and 3% for the quarter and year to date, respectively, refranchising and higher renewal and transfer fees.

G&A Expenses

The quarterly and year to date decreases in G&A expenses, excluding the impacts of foreign currency translation, were driven by the positive impact of YUM's Strategic Transformation Initiatives including the impact of refranchising.

Operating Profit

The quarterly and year to date increases in Operating Profit, excluding the impacts of foreign currency translation, were driven by same-store sales growth, international net new unit growth, lower G&A expenses and higher renewal and transfer fees, partially offset by higher restaurant operating costs and refranchising.

Pizza Hut Division

The Pizza Hut Division has 16,452 units, 46% of which are located in the U.S. The Pizza Hut Division operates as one brand that uses multiple distribution channels including delivery, dine-in and express (e.g. airports). Emerging markets comprised approximately one-third of both units and profits for the Division as of the end of 2016. Additionally, 97% of the Pizza Hut Division units were operated by franchisees as of the end of 2016.

	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2017	2016	Reported	Ex FX	2017	2016	Reported	Ex FX
System Sales Growth (Decline)			—	2			(1)	1
Same-Store Sales Growth (Decline)			(1)	N/A			(2)	N/A
Company sales	$81	$125	(36)	(35)	$171	$260	(34)	(34)
Franchise and license fees and income	141	142	—	1	285	288	(1)	—
Total revenues	$222	$267	(17)	(16)	$456	$548	(17)	(16)
Restaurant profit	$8	$11	(42)	(42)	$13	$25	(50)	(50)
Restaurant margin %	8.5 %	9.4 %	(0.9) ppts.	(1.0) ppts.	7.4 %	9.7 %	(2.3) ppts.	(2.3) ppts.
G&A expenses	$54	$56	5	4	$107	$115	7	7
Operating Profit	$85	$81	4	7	$168	$172	(3)	—

Unit Count	6/30/2017	6/30/2016	% Increase (Decrease)
Franchise	16,100	15,494	4
Company-owned	352	684	(49
	16,452	16,178	2

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Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

	Quarter ended				
Income / (Expense)	2016	Store Portfolio Actions	Other	FX	2017
Company sales	$125	$ (43)	$ —	$(1)	$81
Cost of sales	(35)	12	(1)	1	(23)
Cost of labor	(39)	14	(1)	—	(26)
Occupancy and other	(40)	15	1	—	(24)
Company restaurant expenses	$(114)	$ 41	$ (1)	$1	$(73)
Restaurant profit	$11	$ (2)	$ (1)	$—	$8

	Year to date				
Income / (Expense)	2016	Store Portfolio Actions	Other	FX	2017
Company sales	$260	$ (85)	$ (2)	$(2)	$171
Cost of sales	(72)	23	(1)	1	(49)
Cost of labor	(81)	27	(2)	1	(55)
Occupancy and other	(82)	26	2	—	(54)
Company restaurant expenses	$(235)	$ 76	$ (1)	$2	$(158)
Restaurant profit	$25	$ (9)	$ (3)	$—	$13

The decrease in Company sales and Restaurant profit for the quarter associated with store portfolio actions was driven by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were higher commodity and labor costs. Company same-store sales were even for the quarter.

The year to date decrease in Company sales and Restaurant profit associated with store portfolio actions was driven by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales declines of 2% and higher commodity and labor costs.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by net new unit growth and refranchising, partially offset by franchise same-store sales declines of 1%.

Franchise and license fees and income for the year to date, excluding the impact of foreign currency translation, were even with the prior year, with the impact of net new unit growth and refranchising offset by franchise same-store sales declines of 2%.

G&A Expenses

The quarterly and year to date decreases in G&A expenses, excluding the impact of foreign currency translation, were driven by the positive impact of YUM's Strategic Transformation Initiatives including the impact of refranchising, partially offset by increased litigation costs.

Operating Profit

The increase in Operating Profit for the quarter, excluding the impact of foreign currency translation, was driven by lower G&A expenses.

Operating profit for the year to date, excluding the impact of foreign currency translation, was even with the prior year, with the impact of same-store sales declines offset by lower G&A expenses.

Taco Bell Division

The Taco Bell Division has 6,686 units, the vast majority of which are in the U.S. The Company owned 14% of the Taco Bell units in the U.S. as of the end of 2016.

	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2017	2016	Reported	Ex FX	2017	2016	Reported	Ex FX
System Sales Growth			7	7			10	10
Same-Store Sales Growth			4	N/A			6	N/A
Company sales	$336	$353	(5)	(5)	$673	$678	(1)	(1)
Franchise and license fees and income	120	111	8	8	234	212	11	11
Total revenues	$456	$464	(2)	(2)	$907	$890	2	2
Restaurant profit	$76	$79	(3)	(3)	$150	$147	2	2
Restaurant margin %	22.8 %	22.3 %	0.5 ppts.	0.5 ppts.	22.3 %	21.6 %	0.7 ppts.	0.7 ppts.
G&A expenses	$39	$46	15	15	$81	$93	13	13
Operating Profit	$152	$139	10	10	$293	$257	14	14

Unit Count	6/30/2017	6/30/2016	% Increase (Decrease)
Franchise	5,889	5,557	6
Company-owned	797	909	(12
	6,686	6,466	3

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Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

	Quarter ended			
Income / (Expense)	2016	Store Portfolio Actions	Other	2017
Company sales	$353	$ (27)	$10	$336
Cost of sales	(91)	7	(4)	(88)
Cost of labor	(100)	8	(5)	(97)
Occupancy and other	(83)	6	2	(75)
Company restaurant expense	$(274)	$ 21	$(7)	$(260)
Restaurant profit	$79	$ (6)	$3	$76

	Year to date			
Income / (Expense)	2016	Store Portfolio Actions	Other	2017
Company sales	$678	$ (38)	$33	$673
Cost of sales	(174)	10	(11)	(175)
Cost of labor	(197)	11	(11)	(197)
Occupancy and other	(160)	9	—	(151)
Company restaurant expense	$(531)	$ 30	$(22)	$(523)
Restaurant profit	$147	$ (8)	$11	$150

The decrease in Company Sales and Restaurant profit for the quarter associated with store portfolio actions was driven by refranchising, partially offset by net unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 3%, partially offset by commodity cost inflation and higher labor costs.

The year to date decrease in Company Sales and Restaurant profit associated with store portfolio actions was driven by refranchising, partially offset by net unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 5%, partially offset by higher labor costs, commodity cost inflation and increased cost of sales associated with value offerings.

Franchise and License Fees and Income

The quarterly and year to date increases in Franchise and License fees and income were driven by quarterly and year to date franchise same-store sales growth of 5% and 6%, respectively, net new unit growth and refranchising.

G&A Expenses

The quarterly and year to date decreases in G&A expenses were driven by lower litigation costs and the positive impact of YUM's Strategic Transformation Initiatives including the impact of refranchising.

Operating Profit

The quarterly and year to date increases in Operating Profit were driven by same-store sales growth, lower G&A expenses and net new unit growth, partially offset by higher restaurant operating costs and refranchising.

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Corporate & Unallocated

	Quarter ended			Year to date		
(Expense) / Income	2017	2016	% B/(W)	2017	2016	% B/(W)
Corporate and unallocated G&A expenses	$(69)	$(59)	(17)	$(122)	$(102)	(20)
Unallocated Franchise and license fees and income	—	(1)	NM	—	(1)	NM
Unallocated Franchise and license expenses	(13)	(7)	(88)	(16)	(16)	—
Refranchising gain (loss) (See Note 5)	19	54	(65)	130	54	NM
Unallocated Other income (expense)	2	5	(58)	—	12	(97)
Other pension income (expense) (See Note 10)	(4)	—	NM	(32)	1	NM
Interest expense, net	(104)	(51)	NM	(213)	(93)	NM
Income tax provision (See Note 8)	(105)	(98)	(7)	(172)	(180)	4
Effective tax rate (See Note 8)	33.8 %	27.0 %	(6.8) ppts.	26.2 %	26.8 %	0.6 ppts.

Corporate and Unallocated G&A Expenses

The increase in Corporate G&A expenses for the quarter was driven by non-cash charges related to the ongoing impact of share-based compensation award modifications made at the time of the separation of Yum China Holdings, Inc. (See Note 5), partially offset by lower professional fees and incentive compensation.

The increase in Corporate G&A expenses for the year to date was driven by non-cash charges related to the ongoing impact of share-based compensation award modifications made at the time of the separation of Yum China Holdings, Inc. (See Note 5) and incremental costs associated with YUM's Strategic Transformation Initiatives (See Note 5), partially offset by lower professional fees and incentive compensation.

Unallocated Franchise and License Expenses

Unallocated Franchise and License expenses reflect charges related to the KFC U.S. Acceleration Agreement and, in the quarter ended June 30, 2017, the Pizza Hut U.S. Transformation Agreement. See Note 5.

Unallocated Other Income (Expense)

Unallocated Other income (expense) primarily includes net foreign exchange gains (losses).

Interest Expense, Net

The quarterly and year to date increases in Interest expense, net were driven by increased outstanding borrowings. See Note 11.

Income from Discontinued Operations, Net of Tax

The following table is a summary of the operating results of the China business which have been reflected in discontinued operations. See Note 4 for additional information.

	Quarter ended 2016[(a)]	Year to date 2016[(b)]
Total revenues	$1,588	$2,891
Total income from discontinued operations before income taxes[(c)]	83	275
Income tax provision	17	67
Income from discontinued operations, net of tax	70	208

(a) Includes historical Yum China financial results from March 1, 2016 to May 31, 2016.

(b) Includes historical Yum China financial results from January 1, 2016 to May 31, 2016,plus an additional month of expense associated with the license fee paid to YUM to conform to the new YUM reporting calendar.

(c) Includes costs incurred to execute the Separation of $10 million and $18 million for the quarter and year to date ended June 30, 2016, respectively. Such costs primarily related to transaction advisors, legal and other consulting fees.

Consolidated Cash Flows from Continuing Operations

Net cash provided by operating activities was $439 million in 2017 versus $587 million in 2016. The decrease was largely driven by an increase in interest payments and income tax payments, partially offset by an increase in operating profit before Special Items.

Net cash provided by investing activities was $173 million in 2017 versus net cash used in investing activities of $90 million in 2016. The change was primarily driven by higher proceeds from refranchising of restaurants.

Net cash used in financing activities was $410 million in 2017 versus net cash provided by financing activities of $2,820 million in 2016. The change was primarily driven by lower net borrowings, partially offset by lower share repurchases.

Liquidity and Capital Resources

In October 2016, we announced YUM's Strategic Transformation Initiatives to drive global expansion of the KFC, Pizza Hut and Taco Bell brands following the Separation on October 31, 2016. As part of this transformation, we intend to own less than 1,000 stores by the end of 2018 and, by 2019, reduce annual recurring capital expenditures to approximately $100 million, improve our efficiency by lowering G&A expenses to 1.7% of system sales and increase free cash flow conversion to 100%.

From 2017 through 2019, we intend to return $6.5 to $7.0 billion to shareholders through share repurchases and cash dividends. We intend to fund these shareholder returns through a combination of free cash flow generation, refranchising proceeds and maintenance of our five times EBITDA leverage. We anticipate generating proceeds in excess of $2 billion, net of tax, through the refranchising of over 2,000 stores during 2017 and 2018. During the year to date ended June 30, 2017, we repurchased 13 million shares of our Common Stock for $856 million and paid cash dividends of $211 million.

We have historically generated substantial cash flows from the operations of our company-owned stores and from our extensive franchise operations, which require a limited YUM investment. Our annual operating cash flows from continuing operations have approximated $1.2 billion each of the past three years. Going forward, we anticipate that any decrease in cash flows from the operation of fewer Company-owned stores due to refranchising will be offset with savings generated from decreased capital investment and G&A expense required to support company operations. To the extent operating cash flows plus other sources of cash such as refranchising proceeds do not cover our anticipated cash needs, we maintain $1.1 billion of undrawn capacity under our existing revolving facilities.

Our balance sheet often reflects a working capital deficit, which is not uncommon in our industry and is also historically common for YUM. Company sales are paid in cash or by credit card (which is quickly converted into cash) and our royalty receivables from franchisees are generally due within 30 days of the period in which the related sales occur. Substantial amounts of cash received have historically been either invested in new restaurant assets which are non-current in nature or returned to shareholders. As part of our working capital strategy we negotiate favorable credit terms with vendors and, as a result, our on-hand inventory turns faster than the related short-term liabilities. Accordingly, it is not unusual for current liabilities to exceed current assets. We believe such a deficit has no significant impact on our liquidity or operations.

We generate a significant amount of cash from operating activities outside the U.S. that we have used historically to fund our international development. To the extent we have needed to repatriate international cash to fund our U.S. discretionary cash spending, including returns to shareholders and debt repayments, we have historically been able to do so in a tax-efficient manner. If we experience an unforeseen decrease in our cash flows from our U.S. businesses or are unable to refinance future U.S. debt maturities we may be required to repatriate future international earnings at tax rates higher than we have historically experienced.

Borrowing Capacity

Securitization Notes. In May 2016, Taco Bell Funding, LLC, a newly formed special purpose subsidiary of the Company, issued an aggregate of $2.3 billion of fixed rate senior secured notes (“Class A-2 Notes”). In connection with the issuance of the Class A-2 Notes, Taco Bell Funding, LLC also issued variable rate notes (the “Variable Funding Notes” and, together with the Class A-2 Notes, the “Securitization Notes”) pursuant to a new revolving financing facility, which allows for the borrowing of up to $100 million including the issuance of letters of credit of up to $50 million. We have no outstanding borrowings related to the Variable

Funding Notes and have $15 million in letters of credit outstanding as of June 30, 2017 related to the facility. The Securitization Notes contain cross-default provisions whereby the failure to pay principal on any outstanding Securitization Notes will constitute an event of default under any other Securitization Notes.

Credit Agreement. On June 16, 2016, three wholly-owned subsidiaries of the Company, KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, as co-borrowers (the "Borrowers") entered into a new credit agreement (the “Credit Agreement”) providing for (i) a $500 million Term Loan A facility (the “Term Loan A Facility”), (ii) a $2 billion Term Loan B facility (the “Term Loan B Facility”) and (iii) a $1 billion revolving facility (the “Revolving Facility”), which has no outstanding borrowings and has $4 million in letters of credit outstanding as of June 30, 2017, each of which may be increased subject to certain conditions. Our Term Loan A Facility and Term Loan B Facility contain cross-default provisions whereby the failure to pay principal of or otherwise perform any agreement or condition under indebtedness of certain subsidiaries with a principal amount in excess of $100 million will constitute an event of default under the Credit Agreement.

On March 21, 2017, the Borrowers entered in an amendment to the Credit Agreement pursuant to which the Company repriced its existing approximately $2 billion Term Loan B Facility. The amendment reduces the interest rate applicable to the Term Loan B Facility by 75 basis points to LIBOR plus 2.00%, with a rate stepdown to LIBOR plus 1.75% in the event the Secured Leverage Ratio (as defined in the Credit Agreement) is less than 1:1.

On June 7, 2017, the Borrowers entered in an amendment to the Credit Agreement pursuant to which the Company repriced its existing $500 million Term Loan A Facility and $1 billion Revolving Facility. The amendment reduces the interest rate for the Term Loan A Facility and for borrowings under the Revolving Facility by 75 basis points. Subsequent to the repricing the interest rate ranges from 1.25% to 1.75% plus LIBOR or from 0.25% to 0.75% plus the Base Rate (as defined in the Credit Agreement), at the Borrower’s election, based upon the total net leverage ratio of the Borrowers and the Specified Guarantors. All other material provisions of the Credit Agreement remain unchanged.

Subsidiary Senior Unsecured Notes. On June 16, 2016, the Borrowers issued an aggregate of $1.05 billion Senior Unsecured Notes due 2024 and an aggregate of $1.05 billion Senior Unsecured Notes due 2026. On June 15, 2017, the Borrowers issued an aggregate of $750 million Senior Unsecured Notes due June 1, 2027 (together, the “Subsidiary Senior Unsecured Notes”). Our Subsidiary Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of the indebtedness of certain subsidiaries with a principal amount in excess of $100 million or the failure to pay principal of such indebtedness will constitute an event of default under the Subsidiary Senior Unsecured Notes.

The majority of our remaining long-term debt primarily comprises senior, unsecured obligations ("YUM Senior Unsecured Notes"), which rank equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. The YUM Senior Unsecured Notes have varying maturity dates from 2018 through 2043 and stated interest rates ranging from 3.75% to 6.88%. Amounts outstanding under YUM Senior Unsecured Notes were $2.2 billion at June 30, 2017. Our YUM Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of any of our indebtedness in a principal amount in excess of $50 million will constitute a default under the YUM Senior Unsecured Notes unless such indebtedness is discharged, or the acceleration of the maturity of that indebtedness is annulled, within 30 days after notice. We were in compliance with all of our debt covenant requirements at June 30, 2017.

See Note 11 for additional detail regarding our Short-term borrowings and Long-term debt.

New Accounting Pronouncements Not Yet Adopted

The FASB has issued standards to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. These standards allow for either a full retrospective or modified retrospective transition method. We are required to adopt the new standards in the first quarter of 2018 and are evaluating which transition method we will utilize.

We do not believe these standards will impact the recognition of our two largest sources of revenue, sales in company-owned restaurants and sales-based continuing fees from franchisees. Additionally, we do not expect the new standards will materially impact the recognition of refranchising gains and losses as these transactions are divestitures of businesses and thus outside the scope of the standards. See Note 2 of our 2016 Form 10-K for a description of our current accounting policies related to revenue recognition.

The standards require that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. We are currently evaluating the standards to determine whether the services we provide related to upfront fees we receive from franchisees such as initial or renewal fees contain separate and distinct performance obligations from the franchise right. If we determine these services are not separate and distinct from the overall franchise right, the fees received will be recognized as revenue over the term of each respective franchise agreement. We currently recognize upfront franchise fees such as initial and renewal fees when the related services have been provided, which is when a store opens for initial fees and when renewal options become effective for renewal fees. The standards would require any such unamortized portion of fees received to be presented in our Consolidated Balance Sheets as a contract liability. Any contract liabilities required to be recorded upon the adoption of these standards may be material to our Consolidated Balance Sheets given the volume of our franchise agreements and their duration, which is typically equal to or in excess of ten years.

Similarly, we are currently evaluating whether the benefits we receive from incentive payments we may make to our franchisees (e.g. equipment funding provided under the KFC U.S. Acceleration Agreement, see Note 5) are separate and distinct from the benefits we receive from the franchise right. If they cannot be separated from the franchise right then such incentive payments would be amortized as a reduction of revenue over the term of the franchise agreement. Currently, we recognize any payments made to franchisees within our Consolidated Statements of Income when we are obligated to make the payment.

We are also evaluating whether the standards will have an impact on transactions currently not included in our revenues and expenses such as franchisee contributions to and subsequent expenditures from advertising cooperatives that we are required to consolidate under current GAAP. We act as an agent in regard to these franchisee contributions and expenditures and as such we do not currently include them in our Consolidated Statements of Income or Cash Flows. See Note 2 of our 2016 Form 10-K for details. We are evaluating whether the new standards will impact the principal/agent determinations in these arrangements. If we determine the aforementioned franchisee contributions represent separate performance obligations from the overall franchise right and that we are the principal in these arrangements we would include contributions to and expenditures from these advertising cooperatives within our Consolidated Statements of Income and Cash Flows. While any such change has the potential to materially impact our gross amount of reported revenues and expenses, such impact would largely be offsetting and we would not expect there to be a significant impact on our reported Net Income. Additionally, the new guidance requires enhanced disclosures, including the identification of performance obligations and significant judgments in measurement and recognition.

In February 2016, the FASB issued a standard on the recognition and measurement of leases, which is intended to increase transparency and comparability among organizations by requiring that substantially all lease assets and liabilities be recognized on the balance sheet and by requiring the disclosure of key information about leasing arrangements. This standard is effective for the Company in our first quarter of fiscal 2019 with early adoption permitted. The standard must be adopted using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We currently plan to adopt this standard in the first quarter of 2019 and we are evaluating the impact the adoption of this standard will have on our Financial Statements. Based on our current volume of store leases and subleases to franchisees we expect this adoption will result in a material increase in the assets and liabilities on our Consolidated Balance Sheets; however, we believe the impact will be less material over time as we execute our strategy to be at least 98% franchised by 2019 and thus are a party to fewer leases. Further, we do not anticipate adoption will have a significant impact on our Consolidated Statements of Income or Cash Flows.

In June 2016, the FASB issued a standard that requires measurement and recognition of expected versus incurred credit losses for financial assets held.The standard is effective for the Company in our first quarter of fiscal 2020 with early adoption permitted beginning in the first quarter of fiscal 2019. We are currently evaluating the impact the adoption of this standard will have on our Financial Statements.

In October 2016, the FASB issued a standard that requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The guidance will require a modified retrospective application with a cumulative adjustment to opening retained earnings at the beginning of our first quarter of fiscal 2018 but permits adoption at the beginning of an earlier annual period. We are currently evaluating the impact of adopting the standard on our Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes during the quarter ended June 30, 2017 to the disclosures made in Item 7A of the Company's 2016 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended June 30, 2017.

Forward-Looking Statements

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and by the use of forward-looking words such as "expect," "expectation," "believe," "anticipate," "may," "could," "intend," "b "plan," "estimate," "target," "predict," "likely," "seek," "project," "model," "ongoing," "will," "should," "forecast," "outlook" terminology. Forward-looking statements are based on our current expectations, estimates, assumptions and/or projections, our perception of historical trends and current conditions, as well as other factors that we believe are appropriate and reasonable under the circumstances. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results to differ materially from those indicated by those statements. There can be no assurance that our expectations, estimates, assumptions and/or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the factors described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2 of this report, (ii) any risks and uncertainties described in the Risk Factors included in Part II, Item 1A of this report, (iii) the factors described in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Form 10-K for the year ended December 31, 2016 and (iv) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of our Form 10-K for the year ended December 31, 2016. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We are not undertaking to update any of these statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
YUM! Brands, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of YUM! Brands, Inc. and Subsidiaries (YUM) as of June 30, 2017, and the related condensed consolidated statements of income, comprehensive income and cash flows for the quarter and year-to-date periods ended June 30, 2017 and 2016. These condensed consolidated financial statements are the responsibility of YUM's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of YUM as of December 31, 2016, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity (deficit), for the year then ended (not presented herein), and in our report dated February 21, 2017, we expressed an unqualified opinion on those consolidated financial statements. As more fully discussed in Note 1 to the accompanying condensed consolidated financial statements, the unaudited comparative balance sheet as of December 31, 2016, presented herein, has been derived from the December 31, 2016 balance sheet and has been restated for the effects of the change in accounting principle whereby YUM changed its fiscal year from a 52-53 week fiscal year to a fiscal year ending on December 31 of each year and eliminated any of the one-month or one-period reporting lags of its international subsidiaries. However, we have not audited the adjustments that were applied to restate the balance sheet as of December 31, 2016, and accordingly, we express no opinion thereon.

(signed) KPMG LLP

Louisville, Kentucky
August 8, 2017

PART II – Other Information and Signatures

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 14 to the Company's Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal, regulatory and product risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. There have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information as of June 30, 2017 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased (thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Approximate dollar value of shares that may yet be purchased under the plans or programs (millions)
4/1/17-4/30/17	2,386	$64.29	2,386	$1,319
5/1/17-5/31/17	1,734	$69.65	1,734	$1,199
6/1/17-6/30/17	1,493	$73.71	1,493	$1,089
Total	5,613	$68.45	5,613	$1,089

On November 17, 2016, our Board of Directors authorized share repurchases through December 2017 of up to $2.0 billion (excluding applicable transaction fees) of our outstanding Common Stock. All repurchases were made under this authorization.

Item 6. Exhibits

(a) Exhibit Index

EXHIBITS

Exhibit 4.1	Indenture, dated as of June 15, 2017, by and among the Issuers, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on June 16, 2017.
Exhibit 10.1	Refinancing Amendment No. 2, dated as of June 7, 2017, to Credit Agreement dated as of June 16, 2016, as amended, among Pizza Hut Holdings, LLC, KFC Holding Co. and Taco Bell of America, LLC, as borrowers, the Lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Collateral Agent, Swing Line Lender, an L/C Issuer and Administrative Agent for the Lenders, which is incorporated herein by reference from Exhibit 10.1 to YUM's Report on Form 8-K filed on June 7, 2017.
Exhibit 15	Letter from KPMG LLP regarding Unaudited Interim Financial Information (Acknowledgement of Independent Registered Public Accounting Firm)
Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, duly authorized officer of the registrant.

YUM! BRANDS, INC.
(Registrant)

Date:	August 8, 2017	/s/ David E. Russell
		Senior Vice President, Finance and Corporate Controller
		(Principal Accounting Officer)

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